

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SWF-01 AID-05 CEA-01 CIAE-00 COME-00

EB-04 FRB-01 INR-05 NSAE-00 RSC-01 CIEP-01 SP-02

STR-01 TRSE-00 LAB-01 SIL-01 SAM-01 OMB-01 NEA-06 L-01

IO-04 /050 W

----- 127916

R 251955Z OCT 74

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 7695

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION GENEVA

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PASS TO TREASURY, FRB AND CEA

E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: EC COMMISSION REACTIONS TO OCTOBER 21 FINANCE COUNCIL

REF: EC BRUSSELS 8235

1. SUMMARY: THE EC COMMISSION PLANS TO PROCEED RAPIDLY
IN A DIRECT BORROWING FROM THE ARAB COUNTRIES. FINAL
COUNCIL APPROVAL IS EXPECTED BY THE END OF THE YEAR AND
FORMAL NEGOTIATIONS ARE LIKELY TO BEGIN SHORTLY THEREAFTER.

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ONCE THE LOAN FACILITY IS OPERATIONAL, COMMISSION OFFICIALS

HOPE THAT GERMANY WILL AGREE TO RAISE THE TOKEN AMOUNT OF THE BORROWING AUTHORITY SO THAT THIS NEW FACILITY WILL BECOME A SUBSTANTIAL SOURCE OF FINANCIAL ASSISTANCE TO MEMBER STATES IN BALANCE OF PAYMENTS DIFFICULTY. ITALY AND IRELAND ARE LIKELY RECIPIENTS FOR THE FIRST BORROWING OF ABOUT \$1 BILLION DOLLARS. END SUMMARY.

2. POSITIVE STEP: THE COUNCIL'S AGREEMENT TO BORROW FROM THE OPEC COUNTRIES, ACCORDING TO COMMISSION OFFICIALS, IS THE EC'S MOST POSITIVE STEP IN THE FINANCIAL AREA THIS YEAR. FOR ONCE NO AMBITIOUS, UNWORKABLE SCHEMES WERE PROPOSED. MEMBER STATES REALIZE POTENTIAL BALANCE OF PAYMENTS CRISES COULD BE DISASTROUS TO THE COMMUNITY AND THEY ACCORDINGLY HAVE RESPONDED WITH SOLIDARITY. HOWEVER, THE GERMAN HARD-NOSED INSISTENCE ON THE \$3 BILLION BORROWING CEILING DAMPENED THE COMMISSION'S ENTHUSIASM SOMEWHAT. GERMAN FINANCE MINISTER APEL SEIZED UPON A DUTCH PROPOSAL TO INCLUDE INTEREST PAYMENTS IN THE LOAN CEILING TO LOWER EVEN FURTHER THE AMOUNT THE EC COULD BORROW. COMMISSION OFFICIALS SAID IT WAS RIDICULOUS TO INCLUDE INTEREST PAYMENTS AS PART OF THE LOAN CEILING. UNDER STANDARD PRACTICES THE GUARANTEE COVERS ONLY THE PRINCIPAL OF A LOAN. THE RESULT IS TO REDUCE THE AMOUNT OF THE TOTAL BORROWING TO A TOKEN AMOUNT -- \$1.5 - \$2 BILLION.

3. LOAN AMOUNT AND RECIPIENTS: COMMISSION OFFICIALS WERE ENCOURAGED THAT APEL INDICATED A WILLINGNESS TO CONSIDER INCREASING THE CEILING DURING NEXT YEAR. ONCE THE FACILITY IS OPERATING SUCCESSFULLY THE COMMISSION BELIEVES THE FRG MAY AGREE TO ADDITIONAL BORROWINGS. GERMANY MAY ALSO BE UNDER INTENSE PRESSURE FROM SOME OTHER EC COUNTRIES TO RAISE THE CEILING. CURRENTLY OFFICIALS ARE THINKING IN TERMS OF AN INITIAL BORROWING OF ABOUT \$1 BILLION FOR A TERM OF 7 TO 8 YEARS. THE FIRST RECIPIENTS MIGHT BE ITALY AND IRELAND BUT NO COUNTRY HAS YET REQUESTED A LOAN. THE UK IS CONCERNED THAT THE EC LOAN CONDITIONS MIGHT INTERFERE WITH ITS LIMITED OFFICIAL USE

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POLICIES AND CONSEQUENTLY IS DEFINITELY NOT CURRENTLY INTERESTED IN A LOAN. FOR THE TIME BEING, FRANCE IS ALSO NOT INTERESTED. DENMARK HAS NOT YET INDICATED ITS INTENTIONS.

4. DIRECT PLACEMENT: THE COMMISSION WILL MAKE THE BORROWING DIRECTLY FROM OPEC COUNTRIES. DISCRETE SOUNDINGS MAY BE TAKEN WITH SELECTED COUNTRIES,

SUCH AS SAUDI ARABIA, BEFORE THE END OF THE YEAR, BUT FORMAL NEGOTIATIONS ARE NOT PLANNED UNTIL THE COUNCIL FORMALLY APPROVES THE NEW FACILITY. THE COMMISSION EXPECTS TO BEGIN NEGOTIATIONS IN JANUARY AND AT THAT TIME PLANS TO COORDINATE ITS PLANS WITH THE IMF, USG AND OTHERS TO AVOID POSSIBLE CONFLICTS SUCH AS OVERLAPPING VISITS TO ARAB CAPITALS. A SMALL NEGOTIATING GROUP, PROBABLY HEADED BY JOHN NASH, THE COMMISSION'S DIRECTOR FOR MONETARY AFFAIRS, HAS BEEN PROPOSED TO THE COUNCIL. THE GROUP WOULD CONSIST OF OFFICERS FROM NATIONAL TREASURIES AND CENTRAL BANKS, THE EUROPEAN INVESTMENT BANK AND OTHER INSTITUTIONS. THE LOAN AGENT IS EXPECTED TO BE THE EUROPEAN MONETARY COOPERATION FUND, WHICH WILL WORK THROUGH THE BIS. THE COUNCIL SHOULD DECIDE ON THESE ARRANGEMENTS AT ITS NOVEMBER 18 MEETING.

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PASS TO TREASURY, FRB AND CEA

5. TERMS: OUR SOURCES REPORT BUNDESBANK PRESIDENT KLASSEN RECEIVED INFORMATION THAT A LONG TERM EC BORROWING FROM THE ARABS WOULD BE DIFFICULT AND ONLY A HALF BILLION DOLLARS COULD BE BORROWED AT THIS TIME. COMMISSION OFFICIALS DISCOUNT THIS REPORT, HOWEVER, NOTING THAT THE EC WILL BE STRESSING THE NEED FOR THE ARABS TO HELP THE EC AND WILL BE OFFERING THE ARABS THE OPPORTUNITY TO DIVERSIFY THEIR LOANS. THE COMMISSION HAS NOT YET FOCUSED ON THE ECONOMIC TERMS FOR A POSSIBLE LONG TERM LOAN TO ITALY
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BUT THESE TERMS ARE LIKELY TO BE SIMILAR TO THE ONES UNDER CONSIDERATION FOR THE PROPOSED MEDIUM TERM LOAN. FOR THIS LOAN THE COMMISSION'S CONDITIONS WOULD REPORTEDLY BE MORE RIGOROUS THAN THE CURRENT IMF AGREEMENT WITH ITALY.

6. WE HAVE RECEIVED SEVERAL CONFIDENTIAL REPORTS PROVIDING THE DETAILS OF THE PROPOSED LOAN FACILITY WHICH WILL BE POUCHED. THESE DOCUMENTS INCLUDE 1) THE MONETARY COMMITTEE REPORT TO THE COUNCIL, 2) LEGAL AND BUDGETARY ASPECTS OF THE LOAN AND 3) POSSIBLE AGENTS FOR THE LOAN.

7. ECONOMIC ASSESSMENT: THE COUNCIL ADOPTED A REVISED ASSESSMENT FOR 1975 WHICH MODESTLY LOWERED THE 1975 GNP GROWTH PROJECTIONS FOR THE COMMUNITY, FROM 3.5 TO 3 PERCENT. (THE REVISED REPORT IS BEING POUCHED.) COMMISSION OFFICIALS WERE DISAPPOINTED OVER THE COUNCIL'S STERILE DISCUSSION ON ECONOMIC CONDITIONS WHICH FAILED TO GRAPPLE WITH THE ISSUES. THE UK, THE NETHERLANDS, BELGIUM, IRELAND AND DENMARK EMPHASIZED THE NEED TO REINFLATE WHILE GERMANY AND FRANCE WANTED TO PURSUE RESTRICTIVE POLICIES. ONE COMMISSION OFFICIAL CONCLUDES THAT BECAUSE OF DIVERSE VIEWS THE EC WILL NOT BE ABLE TO HARMONIZE ITS ECONOMIC POLICIES IN THE FORESEEABLE FUTURE.
GREENWALD

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